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Central Intelligence Agency

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Washington, D.C. 20505

Executive Registry

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23 JUL 1982

The Honorable William P. Clark
Assistant to the President
for National Security Affairs
The White House
Washington, D.C. 20500

Dear Bill:

In response to your request of 7 July, this analysis
provides our views on the likely course and consequences of
downgrading in US-China relations.

W. J. Casey

William J. Casey
Director of Central Intelligence

Enclosure

The Process and Aftermath
A Downgrading of US-PRC
Relations

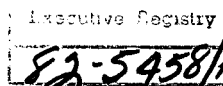
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21 JUL 1982

MEMORANDUM FOR: The Director of Central Intelligence


FROM : Robert M. Gates
Deputy Director for Intelligence

SUBJECT : China and Downgrading the US Relationship

The Chinese replied on 17 July to the final US position on arms sales to Taiwan with a counterproposal that accepts our language on arms sales. Their proposal, however, also removes the linkage, which we want, between China's policy on peaceful reunification and the future of US arms to Taiwan. The Chinese asked to move quickly to line-by-line negotiations; the Department is now preparing a response to their latest draft for White House approval. If agreement is not reached by the end of August, when Congress will be formally notified on extension of the F5E coproduction line on Taiwan, that action is virtually certain to prompt China to begin downgrading relations.

This paper is the latest in our series of analyses for NSC and State on the consequences of various moves in the negotiations. We were not asked to address whether downgrading will occur, but to spell out its mechanics, and implications, and international reaction to the process. Essentially we conclude that the Chinese would:

- publicly curtail the most visible aspects of their political and security relationship, beginning with the withdrawal of their and perhaps our Ambassador;
- preserve their commercial and educational ties with the US, hint at but not follow through on economic retaliation and cultivate the political opposition in the US to change future US policy; and
- try to influence Washington by manipulating allied and Soviet reaction, which together would regard downgrading as a net loss to the US strategic position.


Robert M. Gates

cc: DDCI

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Central Intelligence Agency



Washington, D. C. 20505

DIRECTORATE OF INTELLIGENCE

23 July 1982

THE PROCESS AND AFTERMATH OF A DOWNGRADING OF US-PRC RELATIONS

Key Judgments

If the US and China fail to reach a public understanding on the Taiwan issue in the next few weeks, Beijing will cite new US arms sales to Taipei as the cause for downgrading bilateral relations. Fundamentally, however, China will act on the conviction that the potential for cooperation with the United States has significantly eroded since 1979-80, when Chinese expectations were high.

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China's criticism of the Administration's policies on Taiwan and in several other areas has grown slowly but steadily since the presidential campaign in 1980 when the Chinese became concerned about the possibility of changes in US policies unfavorable toward Beijing and favorable toward Taipei. Beijing regards a settlement of this problem as a litmus of US willingness to treat China as a sovereign power and an equal partner in joint dealings.

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In downgrading relations, the Chinese will make the costs clear to Washington, play on US allies' concerns, and argue their case in the US, where they will suggest that new policies under a

This memorandum was prepared by [redacted] China Foreign Affairs Branch, China Division, Office of East Asian Analysis, Directorate of Intelligence, in response to a request of the National Security Council.

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future leadership would revitalize the strategic benefits from the relationship. Beijing will also attempt to pressure Washington through the private sector by threatening the loss of commercial opportunities in China. The Chinese will attempt to manage their tactics carefully, but excessive bureaucratic zeal or domestic political rivalries might accelerate the downgrading process, with unexpected and unfavorable consequences. [REDACTED]

China is unlikely to change its approach toward the USSR following a downgrading, although Beijing may more actively allude than in the past to its range of options in dealing with Moscow in an attempt to influence US attitudes and policies. The Soviets would welcome downgrading; they may step up their efforts to portray their own flexibility toward China, while playing on the perception that the US has lost a strategic asset. The Allies in Europe and East Asia would see a weakening in the US strategic position vis-a-vis the Soviet Union because of downgrading; in Southeast Asia, the reaction would also include some concern about the diminished US influence on China's behavior. [REDACTED]

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Downgrading: The Mechanics and Chinese Tactics

China's strategy for downgrading would probably follow the precedent set in early 1981, when Beijing reduced its relations to the charge level after the Netherlands sold submarines to Taiwan. We believe, however, that the Chinese want to avoid drastic diplomatic action that would make it difficult to reinstitute a normal relationship if an agreement on Taiwan is reached in the future. We also believe that Beijing wants to maintain diplomatic relations with the US and preserve the current structure of trade and educational exchanges--sources of real benefit to the Chinese. Downgrading, therefore, would likely be limited to curtailing the most visible aspects of our current political and security relationship. [REDACTED]

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In this context, Beijing would use the completion of the Congressional notification procedure on an arms transaction as a pretext to begin downgrading. At that time, we believe the Chinese would formally withdraw Ambassador Chai and perhaps request the recall of Ambassador Hummel. The result could leave charges d'affaires in place for some time. [REDACTED]

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These steps would represent the minimum necessary for Beijing to make downgrading a credible pressure tactic. The Dutch "precedent" allows for more dramatic steps, but we do not believe that Beijing wants to strictly follow the model. That would require a return to the level of diplomatic representation--small liaison offices--prior to US-China normalization in 1972.

In our view, cutbacks in political and security ties almost certainly would include the cessation of high-level visits and strategic consultations, a drop in official travel between China

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and the US not related to educational or commercial exchanges, and tighter restrictions on official contacts with US diplomatic personnel in China. The Chinese probably would ask for a reduction in the size of the Defense Attache Office in Beijing, might request the reduction of the overall size of the US Embassy, and could delay the planned openings of new consulates in both countries. [REDACTED]

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We believe the currently planned Twelfth Congress of the Chinese Communist Party in September or October is a complicating factor that could influence the downgrading process. Deng Xiaoping's politicking before the Congress, for example, might bring him to attempt to gain concessions on domestic matters by accommodating rivals who previously have opposed his policies toward the US. At the same time, he could choose to move toward those critics to forestall a more vigorous attack from them on the US relationship. In addition, China already has begun restricting contacts with foreigners, which we believe reflects growing official hostility toward all foreign influence--not just the US. Such hostility could provoke resentment over a perceived violation of Chinese sovereignty following the sale of weapons to Taiwan. At a minimum, it is likely to make bureaucrats at all levels anxious to toe the line in any prescribed downgrading process, which in turn could lead to a sharper Chinese response that we now anticipate. [REDACTED]

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Downgrading: Costs to the United States

The Taiwan issue and the more general adjustments in Chinese foreign policy since last year--reasserting Beijing's role in the Third World and more sharply defining differences with the US on issues such as Israel and South Africa--have already set new limits on bilateral cooperation. In our view, the changes in Chinese policy indicate that Beijing has revised its initial optimism about prospects for collaboration with Washington. Publicly, as well as privately, the Chinese are more downbeat about US policies in Latin America, Africa and elsewhere, arguing that US behavior is allowing Soviet inroads. As a consequence, they have put more distance between their stands and US policies in several regions, where, in our view, even an end to the Taiwan problem now seems unlikely to bring a substantially closer alignment with the US. [REDACTED]

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Downgrading will make Chinese foreign policy even more competitive with the US. Beijing will accentuate its public condemnations of US "hegemonism"--its codeword for Soviet behavior--and become more open in exploiting "anti-imperialist" themes to enhance its standing in the Third World. Along with more intense rhetorical attacks on US policies, the Chinese may try to undercut some US positions.

For example, Beijing could ignore US nonproliferation concerns in Pakistan and also turn aside US interests in sustained consultations in Southeast Asia. The Chinese will

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tailor their actions to demonstrate to the US the cost of the Taiwan problem, but without attacking those aspects of US policy that basically benefit Chinese interests. Indeed, the Chinese probably believe they have some leeway in these areas to criticize Washington without undue concern over shifts in the anti-Soviet direction of US policy. [REDACTED]

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Chinese officials repeatedly have asserted [REDACTED] [REDACTED] that downgrading will not affect Beijing's basic policies toward the USSR. That message has also been carried in the media, which continues to portray China's opposition to the Soviet Union as the centerpiece of its policy. Increased low-level exchanges with the USSR, however, make clear that Beijing intends to seek a lowering in tensions with Moscow and, in the event of a deterioration in Sino-US relations, will attempt to heighten US concern about a significant improvement in Sino-Soviet relations. [REDACTED]

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Whether or not downgrading occurs, we believe that China will keep pressure on the US regarding Taiwan and the arms sale issue. If the relationship is downgraded, Beijing could reintroduce military exercises or similar moves in the Taiwan Strait as a way to remind the US that it had not abandoned a military option, and that Chinese restraint in the area should not be assumed. We believe that any such actions would be limited in scope [REDACTED]

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Chinese officials repeatedly have asserted to US and third country visitors that downgrading will not affect Beijing's basic policies toward the USSR. That message has also been carried in the media, which continues to portray China's opposition to the Soviet Union as the centerpiece of its policy. Increased low-level exchanges with the USSR, however, make clear that Beijing intends to seek a lowering in tensions with Moscow and, in the event of a deterioration in Sino-US relations, will attempt to heighten US concern about a significant improvement in Sino-Soviet relations. [REDACTED]

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[redacted] the Chinese would not publicize these activities or allude to them in a way that contradicted their continuing public emphasis on peaceful reunification. [redacted]

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Chinese leaders have told visiting US officials that they want to keep their economic ties with the US intact, but we believe Beijing is certain to threaten obliquely selected US firms in an effort to warn Washington about the effect of US arms sales to Taiwan. The Chinese are also likely to point to additional economic opportunities in China for the Western Europeans and the Japanese as a result of US policy actions, although decisions on new trade and investment will still depend on China's own economic policies and internal conditions. If any major programs now involving US and other competitors are awarded to non-US firms--equipment for China's nuclear industry, for example--Beijing will be certain to convey the alleged "political" rationale for the choice to official as well as private sector US contacts. [redacted]

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Reactions Among Allies and Adversaries

In our view, Western Europe and Japan have regarded improved US-China relations over the past decade as contributing to stability in Asia, encouraging China's turn to the West, and adding to US leverage with the Soviet Union. The Europeans and the Japanese also regard relations with China as basic to their own Asian policies. Despite their profitable trade and investment links with Taiwan, allied officials at several levels have told US counterparts that they doubt that Taiwan's need for new weapons justifies actions that would jeopardize the benefits of Washington's ties with Beijing. [redacted]

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Chinese contacts with key US allies have already prompted some--the British and the Japanese--to counsel compromise on both sides. These discussions and the regular relay to Washington of other Chinese warnings about the dangers in downgrading by the allies have probably temporarily exhausted Beijing's ability to use these avenues to pressure the US directly. The Japanese, who have dealt with Beijing sufficiently to understand the US dilemma, would probably react sympathetically to the US position, despite the complications downgrading would create in their relations with China. The West Europeans would probably be less understanding and will privately, if not publicly, blame US policy for losing a widely perceived strategic asset. The British and the French may attempt to broaden their relations with China in order to preserve a bridge between China and the West. [redacted]

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If a downturn in the US-China relationship occurs, we believe the NATO allies will initially address its implications for US and Soviet policy toward European security issues. Some may hope that a cooler US relationship with China will help allay the Soviet's security concerns, but most probably will expect sharper competition between Washington and Moscow. [redacted]

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Other reactions in Asia would reflect concern and uneasiness. In private discussions with US visitors, South Korean officials consistently have regarded US-China normalization as an element for stability on the Korean peninsula. A deterioration in Sino-US relations, we believe, would increase Seoul's anxieties about the advice Beijing will give P'yongyang and about its own efforts to establish commercial and political links with Beijing. Reaction in ASEAN will vary, although ASEAN leaders would be concerned that an element of restraint on Chinese policy in Southeast Asia has been diminished. Despite its previous expressions of concern over US intentions toward China, even Indonesia would fear that any weakening of the US connection would make China a more active threat to its interests. [REDACTED]

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Taiwan would be pleased by the downgrading of US-China relations, but would be unlikely to express its satisfaction in a manner calculated to goad Beijing into further retaliation against the US. How Taiwan would treat the Chinese peaceful reunification campaign following downgrading is uncertain, but we believe Taipei probably would conclude that there was considerably less need to appear responsive for the benefit of a US audience. [REDACTED]

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Uncertainty in Moscow about the extent and duration of downgrading would probably produce an initially cautious attitude, although the Soviet media would move quickly to extract maximum publicity from the downturn. The Soviets would attempt to play on the view, particularly in West Europe, that the US had denied itself a strategic asset and would portray this as an indication of incoherence and inconsistency in US policy. [REDACTED]

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If the Soviets eventually concluded that downgrading in US-China cooperation was enduring, they would believe that the potential threat of strategic encirclement had been at least temporarily relieved. At START talks in Geneva, for example, the Soviets recently warned that they would demand that the talks include Chinese nuclear weapons if the cooperation between the US and China were to broaden--a statement, albeit intended primarily for the record, that underscores the depth of Moscow's concern over a firm US-China relationship. [REDACTED]

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In general, we believe Beijing will claim to audiences in the US and in key allied capitals that the onus for downgrading rests on this Administration and its policies. In so doing, however, the Chinese will not close the door on negotiations over the Taiwan issue. The Chinese also will emphasize that new US policies on Taiwan or a new US leadership could expect to gain greatly from a re-establishment of normal relations. [REDACTED]

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